

Message Text

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44

ACTION EB-11

INFO OCT-01 ARA-16 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 L-03

H-03 PA-03 PRS-01 USIA-15 AGR-20 RSR-01 EA-11 /182 W

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R 041330Z AUG 73

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 8972

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMCONSUL RECIFE

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E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: REACTION TO NEW MINIMUM TERMS ON FOREIGN CREDITS

REF: BRASILIA 4831

1. CONGEN SAO PAULO REPORTS FOLLOWING INITIAL REACTIONS AMONG SAO PAULO BANKING CIRCLES TO DECISION TAKEN BY NATIONAL MONETARY COUNCIL ON JULY 19 AND IMPLEMENTED BY CENTRAL BANK FOLLOWING DAY TO STRETCH OUT MINIMUM TERMS OF FOREIGN FINANCIAL LOANS FROM 8 TO 10 YEARS. A SPOT CHECK AMONG LEADING US AND BRAZILIAN INVESTMENT AND COMMERCIAL BANKS IN SAO PAULO REVEALS A POSITION OF CAUTION EXERCISED BY MOST BANKING INSTITUTIONS IN FACE OF 10 YEAR REQUIREMENT, AND INDICATES ACTION WILL FULFILL BASIC PURPOSE OF APPLYING A BRAKE ON INFLOW OF FOREIGN FUNDS.

2. EXTREME CAUTION APPEARS TO BE EXERCISED BY NEARLY ALL US AND EUROPEAN BANKS IN SAO PAULO. MOST INDICATE AN INTENT TO RESTRICT SEVERELY VOLUME OF LOANS TO THE PRIVATE SECTOR, MAINTAINING THE VALVES OPEN MOSTLY FOR THE PUBLIC

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SECTOR, GOVERNMENT-CONTROLLED CORPORATIONS, AND A FEW HIGHLY

SELECTED PRIVATELY-OWNED BANKS. PERHAPS ONLY SIX TO TEN OF THE LARGEST AND BEST ORGANIZED BRAZILIAN BANKS WILL BE DEEMED ELIGIBLE FOR FOREIGN LOANS. RUN-OF-THE-MILL LOCAL INVESTMENT BANKS WILL PROBABLY HAVE THEIR SOURCES OF FOREIGN LOANS EITHER SEVERELY RESTRICTED OR ELSE CUT OFF ENTIRELY.

3. FOREIGN BANKERS IN SAO PAULO FELT THAT A 10-YEAR TERM ON FOREIGN LOANS CARRIES POLITICAL CONSIDERATIONS THAT WOULD NOT APPLY TO LOANS WITH LESSER MATURITIES. THEY ARGUE THAT A 10-YEAR LOAN IN EFFECT WOULD REPRESENT A COMMITMENT TO "TWO ADMINISTRATIONS". AT THIS TIME THIS SEEMS TO BE A POSITION NOT ONLY OF US BANKS OR US BANK REPRESENTATIVES BUT ALSO THE POSITION OF THE LARGER EUROPEAN BANKS. IT IS REPORTED, BUT NOT CONFIRMED, THAT THE JAPANESE BANKS ARE NOT DETERRED BY THE LONGER TERMS AND HAVE INDICATED NO HESITATION IN OFFERING 10-YEARS OR LONGER TO THE PRIVATE SECTOR. THE LARGER AND MORE CONSERVATIVE EUROPEAN INSTITUTIONS ARE, HOWEVER, DEFINITELY DRAWING IN THE REINS.

4. THE LARGE BRAZILIAN BANKS ARE NOT EAGER TO CONTRACT 10-YEAR LOANS. THEY BELIEVE LONDON INTERBANK RATE AND NEW YORK PRIME WILL PROBABLY CONTINUE TO RISE FOR SOME TIME TO COME, WHILE DOMESTIC RATES WILL TEND TO DECLINE AT LONG TERM (ALTHOUGH PERHAPS GOING IN THE SHORT TERM). AS A RESULT, THEY BELIEVE THAT THE REPASSING OF THE CRUZEIRO VALUE OF THE FOREIGN LOANS TO END USER BORROWERS EVERY 18 MONTHS OR SO MAY BECOME INCREASINGLY DIFFICULT-WITH POSSIBILITY THAT AT SOMETIME OR ANOTHER DURING THE 10-YEAR LOANS TENURE, BANKS MAY NOT BE ABLE TO REPASS THESE FUNDS WITH THE ENSUING RISK OF REAL LOSS TO THEMSELVES. IN ADDITION, THEY FEAR THAT NOT MORE THAN A DOZEN TRULY BRAZILIAN CORPORATIONS WOULD BE LARGE ENOUGH TO BE ELIGIBLE FOR 10-YEAR LOANS, ASSUMING THAT THESE CORPORATIONS WOULD WANT TO TAKE ON SUCH LONG-TERM COMMITMENTS.

5. MANY LOCAL SUBSIDIARIES OF MULTINATIONAL CORPORATIONS WOULD BE ELIGIBLE FOR LOANS BUT THE BRAZILIAN BANKS ARE NOT FULLY CONVINCED THAT THEY, OR THEIR PARENTS, WILL BE INTERESTED IN CONTRACTING 10-YEAR OBLIGATIONS.

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6. SAO PAULO FINANCIAL OBSERVERS APPROACHED IN THE LAST FEW DAYS FEEL THAT GOB WILL CONTINUE INSISTING ON 10-YEAR TERMS FOR FOREIGN LOANS AT LEAST AS LONG AS INDUSTRIAL EXPANSION DOES NOT SUFFER TOO GREATLY. SHOULD INDUSTRIAL EXPANSION BEGIN TO FALTER FOR LACK OF CAPITAL THE GOB, WITH THE FLEXIBILITY IT HAS SHOWN IN THE PAST, WOULD PROBABLY REVERT TO A SYSTEM OF FOREIGN LOANS CARRYING SHORTER MATURITY.

7. COMMENT: AFTER A SERIES OF MEASURES OVER THE PAST 16 MONTHS WHICH HAVE LENGTHENED CONSIDERABLY THE TERMS OF FOREIGN BORROWING BUT WHICH HAVE FAILED TO STAUNCH THE MASSIVE INFLOW OF FOREIGN LOAN FUNDS, THE GOB SEEMS WITH THE LATEST MEASURES TO HAVE CROSSED THE LINE OF INTERNATIONAL WILLINGNESS TO EXTEND FURTHER CREDIT ON THE PART OF MANY FOREIGN LENDERS. WHILE THE JAPANESE AND THE LARGER US FINANCIAL INSTITUTIONS WILL CONTINUE IN THE GAME, TOGETHER WITH THE LARGER BRAZILIAN BANKS AND BORROWING CORPORATIONS ON THE RECEIVING END, IT APPEARS, ON THE BASIS OF OUR INITIAL SOUNDINGS, THAT THESE NEW MEASURES WILL SERVE TO RESTRICT THE CURRENT RATE OF INFLOW. IN INTERESTING SIDELIGHT, DIRECTOR OF CENTRAL BANK RESEARCH DEPT RECENTLY TOLD EMBASSY OFFICERS THAT THERE HAS BEEN A MARKED INCREASE THIS YEAR IN NET INFLOW OF CAPITAL ON FOREIGN DIRECT INVESTMENT ACCOUNT.
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